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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER
COMMISSIONER

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IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING ELECTRIC
RESTRUCTURING ISSUES

DOCKET NO. E-00000A-02-0051

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
VARIANCE OF CERTAIN REQUIREMENTS
OF A.A.C. R14-2-1606

DOCKET NO. E-01345A-01-0822

IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING THE ARIZONA
INDEPENDENT SCHEDULING
ADMINISTRATOR

DOCKET NO. E-00000A-01-0630

IN THE MATTER OF TUCSON ELECTRIC
POWER COMPANY'S APPLICATION FOR A
VARIANCE OF CERTAIN ELECTRIC
COMPETITION RULES COMPLIANCE
DATES

DOCKET NO. E-01933A-02-0069

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS STRANDED COST
RECOVERY

DOCKET NO. E-01933A-98-0471

NOTICE OF FILING DIRECT TESTIMONY OF

CURTIS L. KEBLER

ON BEHALF OF RELIANT RESOURCES, INC.

1 Reliant Resources, Inc., by and through its attorneys, hereby files the
2 Direct Testimony of Curtis L. Kebler, Director of Asset Commercialization, West
3 Region.

4 RESPECTFULLY submitted this 29th day of May, 2002.

5 MARTINEZ & CURTIS, P.C.

6
7
8 By



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1 Original and eighteen (18) copies of the foregoing document filed with service list
2 this 29th day of May, 2002, with:

3 Docket Control
4 Arizona Corporation Commission
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6 Phoenix, Arizona 85007

7 Copies of the foregoing hand-delivered without a copy of the service list
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1755/-1/pleadings/Notice of Filing-testimony.0529.02

BEFORE THE ARIZONA CORPORATION COMMISSION

**WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER**

**IN THE MATTER OF THE ARIZONA) DOCKET NO. E-01345A-01-0822
PUBLIC SERVICE COMPANY'S)
REQUEST FOR VARIANCE OF)
OF CERTAIN REQUIREMENTS)
OF A.A.C. R14-2-1606.)
_____)**

DIRECT TESTIMONY

OF

CURTIS L. KEBLER

ON BEHALF OF

RELIANT ENERGY RESOURCES, INC.

DOCKET NO. E-01345A-01-0822

MAY 29, 2002

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**DIRECT TESTIMONY OF
CURTIS L. KEBLER
DOCKET NO. E-00000A-02-0051**

5 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
6 **OCCUPATION.**

7 A. My name is Curtis L. Kebler. My business address is 8996 Etiwanda Avenue,
8 Rancho Cucamonga, California 91739. I am Director, Asset Commercialization
9 West Region for Reliant Resources, Inc. ("Reliant").

10
11 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND**
12 **EXPERIENCE.**

13 A. A summary of my professional qualifications and experience is included in the
14 Statement of Qualifications attached as Appendix A to my testimony.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. In a Procedural Order dated May 2, 2002, the Administrative Law Judge
18 directed parties to address the following issues as part of Track A: (i) transfer of
19 assets and associated market power issues; (ii) jurisdictional issues; and (iii)
20 Code of Conduct and the Affiliated Interest Rules. The purpose of my
21 testimony is to address the issues identified in Track A, describe the relationship
22 between these issues and Track B issues, and propose a framework for resolving
23 these issues and implementing the competitive procurement objectives of
24 Rule 1606(B).

1 **Q. PLEASE ELABORATE ON YOUR UNDERSTANDING OF THE**
2 **TRACK A ISSUES.**

3 A. The Arizona Electricity Competition Rules require the transfer of APS'
4 generation assets. Through its Settlement Agreement, APS has agreed to
5 transfer its generation assets to its affiliate company, Pinnacle West Energy
6 Corporation, by December 31, 2002. The objective of the asset transfer is to
7 enable a market structure that allows generation services to be provided
8 competitively rather than through cost-based regulation. The Commission has
9 correctly recognized that the transfer of such assets raises important issues
10 relating to market power, jurisdictional oversight, and affiliate transactions.
11

12 **Q. WHAT ARE THE SPECIFIC MARKET POWER ISSUES RAISED BY**
13 **THE TRANSFER OF GENERATION ASSETS?**

14 A. The transfer of APS' generation assets to Pinnacle West Energy Corporation
15 results in the concentration of available generation capacity within a single
16 entity. In addition, existing transmission constraints limit the amount of
17 external generation that can be imported into the Phoenix load center area.
18 Absent structural remedies, these circumstances do not provide the conditions
19 necessary for multiple suppliers to compete effectively in the provision of
20 generation services on behalf of Standard Offer customers.
21
22
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1 **Q. HOW CAN THE GENERATION MARKET POWER CREATED BY**
2 **THE ASSET TRANSFER BE ADDRESSED TO ENSURE A**
3 **COMPETITIVE PROCUREMENT PROCESS?**

4 A. One approach for mitigating the market power associated with the asset transfer
5 is to conduct a capacity auction in which wholesale market participants are able
6 to acquire a specified portion of the output of the transferred capacity. The asset
7 itself is not sold in this type of auction, only an entitlement to a portion of the
8 output. Once the entitlement to a portion of the existing generation capacity has
9 been diversified among multiple market participants, these participants can then
10 compete in the process envisioned under Rule 1606(B) to provide generation
11 services to APS and its Standard Offer customers. Such a capacity auction
12 mechanism has been utilized successfully in Texas' restructured electricity
13 market.

14
15 **Q. ARE THERE OTHER ISSUES THAT HAVE BEEN IDENTIFIED AS**
16 **BEING PART OF TRACK A?**

17 A. Yes. Code of Conduct and Affiliated Interest Rules are also being addressed in
18 Track A. These issues arise in connection with the asset transfer because it is
19 contemplated that APS will engage in arms-length bilateral negotiations with
20 Pinnacle West Capital Corporation for a significant portion of the generation
21 needs of Standard Offer customers.

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1 **Q. IS THERE A RELATIONSHIP BETWEEN THE TRACK A ISSUES**
2 **DESCRIBED ABOVE AND THE ISSUES UNDER CONSIDERATION IN**
3 **TRACK B?**

4 A. Yes. The Track B issues involve implementation of the competitive
5 procurement provisions of Rule 1606(B). Several parties have observed that
6 Track A and Track B issues are necessarily inter-related. Reliant agrees with
7 those observations and believes the most effective process for addressing the
8 issues in both Track A and B is to utilize a competitive procurement model
9 implementing 1606(B) as a framework.
10

11 **Q. DOES RELIANT HAVE A PROPOSED COMPETITIVE POWER**
12 **PROCUREMENT MODEL THAT COULD SERVE AS A**
13 **FRAMEWORK?**

14 A. Yes. Reliant proposes a competitive procurement model whereby the electric
15 generation assets of APS are transferred as envisioned in the Competition Rules.
16 As mentioned above, a portion of the output of the capacity represented by the
17 transferred assets would be auctioned to eligible wholesale market participants
18 for terms of varying lengths, and with the requirement that those entitlements be
19 offered back in the 1606(B) process. The utilities would obtain the generation
20 resources necessary to meet at least 50% of their Standard Offer load
21 requirements through a competitive bid process and obtain the remaining
22 portion of their load requirements through arms-length, bilateral contracts.
23

1 **Q. PLEASE DESCRIBE FURTHER THE PROPOSED COMPETITIVE**
2 **PROCUREMENT MODEL.**

3 A. To encourage competition, mitigate market power, and increase market
4 liquidity, Reliant believes approximately one-third of the output of the
5 generation capacity being transferred to Pinnacle West Energy Corporation
6 from APS should be auctioned to wholesale market participants. Pinnacle
7 West's capacity auction would include a variety of capacity products (i.e.,
8 baseload, intermediate, cyclic, and peaking assets) and the resulting capacity
9 contracts would vary in length (monthly, annual, and bi-annual). The capacity
10 contracts would have additional characteristics, such as system transmission
11 entitlement and must offer requirements. A successful bidder in the capacity
12 auction would receive an entitlement in the form of a call option on a specified
13 amount of capacity. All qualified bidders could participate in the capacity
14 auction with the exception of Pinnacle West. The successful bidders in the
15 capacity auction must offer the purchased capacity entitlements into the
16 1606(B) competitive power procurement process.

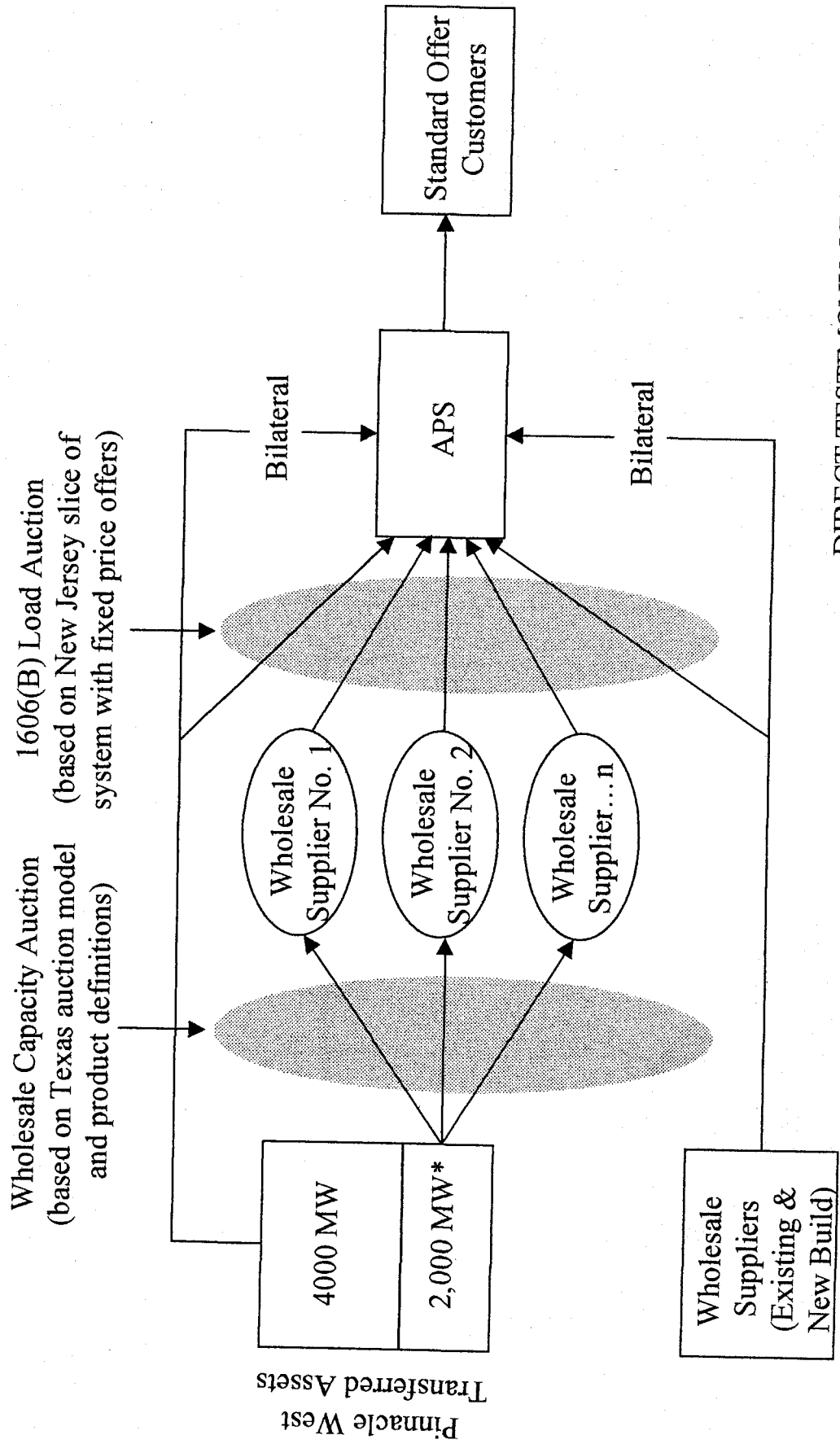
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2 **Q. HOW DOES THE CAPACITY AUCTION INTERACT WITH THE**
3 **STANDARD OFFER PROCURMENT PROCESS UNDER RELIANT'S**
4 **PROPOSED MODEL?**

5 A. Under Rule 1606(B), APS is required to acquire at least 50% of its Standard
6 Offer power requirements (approximately 3000 MW) through a competitive bid
7 process ("RFP"). Reliant envisions the RFPs being structured as "slice of
8 system" auctions. Bidders would be competing on the basis of price to provide
9 a specific percentage of APS' daily load requirement. Under this auction
10 procedure, APS would be purchasing a fixed priced product. I have described
11 this process more thoroughly in my March 29, 2002, Direct Testimony in
12 Docket No. E-01345A-01-0822. All qualified market participants, including
13 Pinnacle West and the successful capacity auction bidders, would be eligible to
14 participate in the Rule 1606(B) procurement auctions. Pursuant to the Rule, the
15 remaining portion of APS' Standard Offer requirements would be met through
16 arm's length bilateral transactions. Exhibit A provides a graphical
17 representation of the proposed competitive procurement model.

Exhibit A

**Arizona Competitive Procurement Model
(Illustrative)**



*Includes associated transmission capacity.

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2 **Q. IN ADDITION TO MITIGATING MARKET POWER, ARE THERE**
3 **OTHER BENEFITS OF THE COMPETITIVE PROCURMENT MODEL**
4 **YOU HAVE OUTLINED?**

5 A. Yes. The capacity auction described above enables multiple parties to
6 participate in the Rule 1606(B) auction thereby creating greater wholesale
7 competition. Reliant believes it is particularly important that multiple suppliers
8 have the opportunity to compete within the constrained areas during the period
9 until construction of new generation is completed and transmission constraints
10 are alleviated. The Commission can rely on the results of the capacity auction
11 (a market-determined price) as a guide in determining the reasonableness of any
12 bilateral contracts between APS and other parties, including Pinnacle West.
13 The two auctions – capacity auction and load auction – are therefore
14 complementary in terms of encouraging a robust competitive wholesale market.

15

16 **Q. HAVE THERE BEEN DIFFERING VIEWS EXPRESSED ON ASSET**
17 **TRANSFER?**

18 A. Yes. Some parties, including the Commission Staff and the utilities have
19 expressed concerns about the asset transfer. The underlying presumption
20 appears to be that the asset transfer process should be viewed as an all or
21 nothing event. In fact, however, there maybe appropriate policy reasons for
22 going forward with the asset transfer, but with something less than 100% of

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2 capacity initially. Reliant believes the competitive power procurement
3 objectives of Rule 1606(B) can be realized without transferring 100% of the
4 assets all at once. The framework outlined above accommodates the transfer of
5 assets in whole or in part over time.
6

7 **Q. WHAT TIMELINE DOES RELIANT PROPOSE TO IMPLEMENT THE**
8 **CAPACITY AUCTION, LOAD AUCTION, AND BILATERAL**
9 **CONTRACTS?**

10 A. Reliant believes that the capacity auction rules can be in place and products
11 ready for auction by the end of 2002. The Rule 1606(B) auction could then
12 occur in the first quarter of 2003, with initial delivery beginning in July 2003.
13 Delivery of the capacity auction products should begin at the same time as
14 delivery of the load auction products. Hence, winning bidders in the capacity
15 auction could call on their products beginning in July 2003. Bilateral contract
16 negotiations can begin immediately. Delivery of bilaterally negotiated products
17 can begin as soon as January 1, 2003.
18

19 The competitive solicitation that occurs pursuant to Rule 1606(B) should
20 provide for staggered delivery dates and varying contract term lengths. The
21 initial solicitation should provide for delivery beginning in July 2003, and have
22 contract terms extending no longer than three years. The companion

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2 solicitations should establish an initial delivery date of July 2005 and 2006, and
3 should provide for varying contract lengths in the range of 2-4 years, 5-7 years,
4 and 10-15 years. The utilization of multiple delivery dates will allow bids to
5 include additional proposed generation as it becomes available. It also initiates
6 the on-going process of competitive power procurement. Requiring contracts of
7 varying term lengths also facilitates this on-going process. Reliant's
8 recommended process places PWCC/PWEC on a level playing field and
9 provides a truly competitive environment.

10
11 Reliant believes implementing the capacity auction and the 1606(B)
12 procurement process (load auction/bilateral contracts) with the proposed
13 staggered contract delivery dates is required if market participants are expected
14 to develop new generation and transmission. Implementation now will
15 encourage greater competition among suppliers and ultimately lead to lower
16 relative prices for power supplies in Arizona. The Commission must guard
17 against illusory competitive power procurement processes that allow the
18 existing generation to become entrenched and effectively exclude competition
19 by entering into long-term contracts before competitive power can be made
20 available. The Commission must ensure that the solicitation structure and
21 bilateral contract guidelines encourage and facilitate the development of a
22 robust competitive wholesale power market.

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2 **Q. HOW SHOULD THE TRANSMISSION RIGHTS CURRENTLY**
3 **ASSOCIATED WITH APS' POWER PLANTS BE TREATED?**

4 A. In order to obtain transmission rights under its Open Access Transmission
5 Tariff (Tariff), APS must designate Network Resources on behalf of its native
6 load customers in the same manner as any other customer taking Network
7 Transmission Service (NTS) under the Tariff. In the specific instance of the
8 APS solicitation, if some of APS' currently designated Network Resources are
9 not chosen in the solicitation, then APS would no longer designate those
10 resources as network resources and would instead designate the resources that
11 are selected through the solicitation as Network Resources.

12
13 APS designates Network Resources "*on behalf of its native load customers.*"

14 Thus the transmission rights associated with APS' current generating assets are
15 available to whoever is responsible for serving the load. If APS is no longer
16 using a particular generating asset as a Network Resource to serve its load, it
17 should designate that transfer capability for use by a new network resource.
18 Network transmission rights should not remain with generating assets not
19 selected in the 1606(B) competitive procurement process. Those generating
20 assets not selected in the competitive procurement process must obtain
21 transmission rights as necessary and available to deliver their power to new
22 customers' load. APS' existing transmission rights should be used to serve its

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2 load requirements from whichever new or existing generating resources are
3 successful in the competitive procurement process.
4

5 **Q. WHAT JURISDICTIONAL ISSUES ARISE AS A RESULT OF THE**
6 **TRANSFER OF ASSETS?**

7 A. Once the transfer of assets occurs, it is envisioned that Pinnacle West will seek
8 FERC authority to implement market-based rates. This transfer of jurisdictional
9 authority raises concerns regarding the ACC's ability to directly ensure that
10 rates for generation services will be just and reasonable.
11

12 **Q. DOES THE COMMISSION'S RELINQUISHMENT OF ITS**
13 **JURISDICTION OVER APS' GENERATION ASSETS TO FERC NEED**
14 **TO BE SPECIFICALLY ADDRESSED IN THIS DOCKET?**

15 A. As long as the APS generating assets remain state jurisdictional, retail
16 customers will continue to bear the investment, operating and fuel price risks
17 associated with those assets. The Commission will have the ability to establish
18 any conditions it deems necessary as part of the asset transfer procedure and
19 will have ongoing authority over the competitive power procurement process.
20 In addition, FERC jurisdiction includes authority for market monitoring,
21 enforcement, and provisions for refunds to ensure that wholesale prices are just
22 and reasonable.

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2 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

3 **A. Yes.**

4

5

STATEMENT OF QUALIFICATIONS

APPENDIX A

Curtis Kebler is Director, Asset Commercialization West Region for Reliant Resources, an international energy services company based in Houston, Texas. Reliant has nearly 18,000 megawatts of power generation capacity in operation, under construction or under contract in the U.S., and is one of only five companies to rank among both the ten largest power marketers and the ten largest natural gas marketers in North America.

Mr. Kebler is responsible for representing Reliant's commercial interests on a broad range of technical and policy issues before various regulatory, legislative, and industry organizations in the Western U.S. He coordinates and implements the company's policies relating to restructured western region electricity markets and Regional Transmission Organizations, and oversees the performance of research and analysis and the development of studies and reports on western energy markets.

Mr. Kebler has more than 15 years experience in the energy industry and has broad knowledge of the structure, operation and performance of California's natural gas and electric power markets. From 1985 to 1997, Mr. Kebler worked for Southern California Edison Company in a variety of positions and was actively involved in the restructuring of California's natural gas industry and following that the restructuring of

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2 the state's electricity industry. From 1997 to 1999, Mr. Kebler worked for the
3 California Power Exchange and was actively involved in all aspects of the start-up and
4 initial operation of that corporation.

5
6 Mr. Kebler has a Bachelor of Science degree in nuclear engineering from the
7 University of California. He is a member of the Board of Directors of the Independent
8 Energy Producers Association and the Western Power Trading Forum and serves as
9 Reliant's representative on numerous industry associations and committees.

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